

**CHAPTER 3. ACCOUNTS RECEIVABLE**

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## CHAPTER 3. ACCOUNTS RECEIVABLE

### 3.1 OVERVIEW.

- 3.1.1 Purpose. This chapter issues policy for the recognition, recording, and reporting of public and intragovernmental accounts receivable. This chapter also addresses the collection, follow-up and, when necessary, the write-off and closeout of public receivables and the recording and adjusting of intragovernmental receivables.
- 3.1.2 Receivables Recognition. Receivables shall be recorded when recognized or earned, and collected when due. The Statement of Federal Financial Accounting Standards (SFFAS) No. 1 requires that receivables be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a legislative requirement, a payment due date, or goods or services provided. SFFAS No. 1 requires that receivables from federal entities be reported separately from receivables due from public entities. Because of legal and administrative requirements and concepts, intragovernmental and public receivables are treated differently.

### 3.2 AUTHORITIES AND REFERENCES.

- 3.2.1 Executive Agency Regulations and Directives.
- A. Statement of Federal Financial Accounting Standard (SFFAS) No. 1, Accounting for Selected Assets and Liabilities
  - B. Treasury Financial Manual, Volume 1, Supplement, Managing Federal Receivables
  - C. 31 CFR Chapter 9 Part 900-904, "Federal Claims Collection Standards"
  - D. Debt Collection Authorities under the Debt Collection Improvement Act of 1996, Public Law 104-134, 31 U.S.C. § 3701, 3711-3720E
  - E. OMB Circular No. A-129, Policies for Federal Credit Programs and Non-Tax Receivables
  - F. Department of Treasury - Financial Management Service, United States General Ledger (USSGL).
  - G. Treasury Financial Manual, Volume I, Part 2, Chapter 4100, Supplement, Instructional Workbook For Preparing the Treasury Report on Receivables and Debt Collection Activities

- H. Internal Revenue Service. Publication 1220: Specifications for Filing Forms 1098, 1099, 5498, and W-2G Electronically. Updated for each tax reporting year.

### 3.3 ROLES AND RESPONSIBILITIES.

#### 3.3.1 NASA Headquarters, Office of the Chief Financial Officer shall:

- A. Coordinate and monitor the processes and systems used to record, report, and collect NASA's receivables.
- B. Prepare and submit, based on reports from the SAP Core Financial System and other relevant programs, NASA's agency-level Treasury Report on Receivables (TROR). Information provided by the NSSC.

#### 3.3.2 NASA Center Office of the Chief Financial Officer shall:

- A. Review the status of reimbursable agreements and ensure that costs are recorded promptly and accurately.
- B. Provide any required backup data for reimbursable bills to NSSC for transmittal to customer with the monthly bill.
- C. Provide advance liquidation notices to reimbursable customers.

#### 3.3.3 NASA Shared Services Center shall:

- A. Record receivables as soon as possible upon notification from the responsible Center office that an amount is due.
- B. In coordination with Centers with reimbursable work, run the preliminary billing register, adjust the proposed bill if necessary, and release the bills generated each month for reimbursable customers.
- C. Issue hard copy bills to reimbursable customers.
- D. Issue hard copy bills and, when needed, provide supporting documentation to debtors for debts not arising from reimbursable agreements.
- E. Monitor and age outstanding receivables and manage the debt collection function in accordance with Financial Management Requirements, Volume 15, *Cash Management*, Chapter 4, Billing and Collection.
- F. In collaboration with Centers, respond to inquiries from debtors.
- G. Identify debt that has been uncollectible, coordinate with Centers on determinations of additional collection actions or if the debt is to be written off.

- H. Process write-offs of receivables after coordination with Centers responsible for the debts.
- I. Process collections against outstanding receivables.
- J. Refer delinquent debt to Treasury for cross-servicing in accordance with Treasury guidelines.
- K. Generate IRS Forms 1099-C for customers whose debts have been discharged or collection efforts terminated in accordance with guidance from the Internal Revenue Service (IRS). 1099-C Forms are not generated for debts that are reversed because of a correction or if the debt does not have legal merit.
- L. Adjust allowances for loss on accounts receivables, interest, and penalties/administrative fees.

### 3.4 DEFINITIONS.

- 3.4.1 Accounts Receivable. Receivables arise from claims to cash or other assets against another entity. Receivables include, but are not limited to, monies due for indebtedness. Examples of indebtedness include reimbursements to NASA for work performed for other parties, overpayments to vendors or to employees, dishonored checks, interest, fees, claims, damages, or any other event resulting in a debt owed to NASA.
- 3.4.2 Close-out. Close-out occurs after determination has been made that additional collection efforts on a debt would be futile so that collection efforts are terminated. Criteria for determining whether additional collection efforts would be futile are addressed in the section covering Termination of Collection Activity. The amount of the debt is reported to the Internal Revenue Service as income to the debtor on Form 1099-C, "Cancellation of Debt." Close-out may occur concurrently with the write-off of an account, or at a later date, depending on the collection strategy and the ultimate determination that the debt has been discharged. If collection efforts are terminated, the debt must be written off.
- 3.4.3 Collection Actions. Collection actions include issuance of demand letters and referral to debt collection entities such as the Department of the Treasury.
- 3.4.4 Currently Not Collectible (CNC). Debts that have been written-off but where the Agency intends to continue cost effective debt collection action.
- 3.4.5 Delinquent Receivables. Delinquent accounts receivable are receivables that have not been paid by the date specified in the initial written demand for payment or applicable agreement unless other payment arrangements have been made. Receivables which are delinquent are aged from the payment due date. If a payment "grace" period is provided and expires without

payment, then the receivable becomes delinquent from the original payment due date.

- 3.4.6 Intragovernmental Receivables. Intragovernmental receivables are claims of a federal entity against other federal entities. The standard business rules that govern intragovernmental receivable billing and reconciliation are contained in FMR Volume 6, Chapter 12, "Intragovernmental Transactions."
- 3.4.7 Nondelinquent Receivables. Nondelinquent (or "current") receivables are receivables outstanding for 30 days or less or those not yet due under the contract or billing document pertaining to the receivable.
- 3.4.8 Nonentity Receivables. As defined by SFFASNo. 1, nonentity receivables are amounts that NASA collects on behalf of the U.S. government or other entities and which NASA is not authorized to spend. Nonentity receivables are reported separately from receivables available to NASA (entity receivables). Nonentity receivables include:
- A. Governmental receipts and collections arising from the sovereign and regulatory powers unique to the federal government.
  - B. Receivables related to custodial amounts collected on behalf of other accounts (such as interest on delinquent receivables).
  - C. Other receivables that NASA is not authorized to credit to its accounts (such as amounts deposited to Miscellaneous Receipts representing collections above full cost on reimbursable billings unless expressly permitted or amounts billed to recover depreciation).
- 3.4.9 Nonfederal Receivables. Nonfederal receivables are claims of NASA or an entity within the federal government against nonfederal entities. The term "nonfederal entities" encompasses public entities, domestic and foreign persons, and organizations outside the U.S. Government. Nonfederal receivables are also called public receivables.
- 3.4.10 Reimbursements. Reimbursements are amounts earned and collected for goods or services furnished.
- 3.4.11 Rescheduled Receivables. Rescheduled receivables are receivables and advances that have been subject to rescheduling, forbearance, deferment, reamortization, or any other form of extending the original payment(s) or payment due dates.
- 3.4.12 Revenue. Revenue comes from two sources: exchange transactions and nonexchange transactions. Exchange revenues arise when an entity provides goods and services to the public or to another federal entity for a price. Exchange revenue is also known as earned revenue. Nonexchange revenues come primarily from power of the U.S. Government to demand payments from the public, such as taxes, duties, fines, and penalties.

- 3.4.13 Write-off. Write-off is the process of reducing receivables in accounting records as a result of the determination that they are uncollectible. All write-offs must be made through allowance accounts for bad debts. Under no circumstances are debts to be written off directly to expense. Write off of debt does not automatically imply the termination of collection efforts. Those should be addressed independently. If a debt is written off, collection efforts could continue. If a determination is made to terminate collection efforts, the debt must be written off. Write-offs should also be distinguished from reversals of receivables as a result of corrections or a determination that there is not a valid basis for the claim by NASA.
- 3.4.14 Accounts Receivable (Account Number 1310). Accounts receivable are the receivables or amounts due from others when the right to receive funds accrues. This may result from the performance of services, the delivery of goods, refunds due, or court ordered assessment. Sources of entry include billing documents, cost reports, receiving reports, payroll records, cash collection vouchers, and collection and disbursing documents. The normal balance for this account is a debit.
- 3.4.15 Allowance for Loss on Accounts Receivable (Account Number 1319). Allowance for Loss on Accounts Receivable represents the estimated amount of uncollectible accounts receivable from the public so that receivables can be reported at their net realizable value, (i.e., net an estimate of receivables reasonably likely to become uncollectible). Increase the account by the amount estimated to be uncollectible. Decrease the account by the actual amount subsequently written off. The amount should consider outstanding advances. The normal balance for this account is a credit.
- 3.4.16 Interest Receivable (Account Number 1340). Interest receivable is the amount owed representing accrued interest charges on delinquent accounts receivable and the normal interest that accrues on loans receivable. This also includes interest accrued on investment securities. The normal balance for this account is a debit.
- 3.4.17 Allowance for Loss on Interest Receivable (Account Number 1349). The Allowance for Loss on Interest Receivable represents the estimated amount of uncollectible Interest Receivables so that Interest Receivables can be reported at their net realizable value. The process for determining an allowance for uncollectible amounts shall be based on an historical analysis of interest receivables that have been determined to be uncollectible. Increase the account by the amount estimated to be uncollectible. Decrease the account by the actual amount subsequently written off. The normal balance for this account is a credit.
- 3.4.18 Penalties, Fines and Administrative Fees Receivable (Account Number 1360). This is the amount owed representing penalties, fines, and administrative fees that have been assessed as a result of delinquent accounts receivable and loans receivable. The normal balance for this account is a debit.

- 3.4.19 Allowance for Loss on Penalties, Fines, and Administrative Fees Receivable (Account Number 1369). This represents the estimated amount of uncollectible Penalties, Fines, and Administrative Fees Receivable so that Penalties, Fines, and Administrative Fees Receivable can be reported at their net realizable value. The process for determining an allowance for uncollectible amounts shall be based on an historical analysis of Penalties, Fines, and Administrative Fees Receivable that have been determined to be uncollectible. Increase the account by the amount estimated to be uncollectible. Decrease the account by the actual amount subsequently written off. The normal balance for this account is a credit.

### 3.5 POLICIES AND PROCEDURES.

#### 3.5.1 Receivables.

- A. Receivables shall be recorded when recognized or earned, and collected when due. SFFAS No. 1 requires that receivables be recognized when a federal entity establishes a claim to cash or other assets against other entities either based on legal provisions, such as a legislative requirement, a payment due date, or goods or services provided. Further, SFFAS No. 1 requires that receivables from federal entities (intragovernmental receivables) be reported separately from receivables from public entities. Intragovernmental and public receivables are treated differently because of the different legal and administrative requirements and concepts that apply to them.
- B. Generally, accounts receivable should be recorded in the accounting period in which they are earned from the sale of goods and services, or in which a debt is recognized. Accounting records for receivables shall be maintained so that all transactions affecting the receivables are included in the reporting period in which they occur. Adjustments or corrections to accounts receivable will be posted as soon as possible and in the accounting period in which the adjustments or corrections occur. If adjustments or corrections affect transaction amounts, due dates, or any other terms for the receivable, the debtor shall be notified.
- C. Unless specifically called for in a reimbursable agreement, a regular interim reimbursable billing could be deferred when the amount of a periodic billing would not be cost-effective to process and the Center expects that additional cost will be recorded. Generally, there should be a basis for deferring a billing if the amount of the bill is less than the incremental cost of processing the bill and the related collection. Consequently, incremental costs of processing billings and collections should be periodically analyzed. Agency collection procedures should provide for periodic comparison of costs incurred and amounts collected. An amount that remains unbilled (because of an interim billing has been deferred) would be brought forward in the next billing cycle as a beginning unbilled balance. If a new total balance is then cost-effective to bill, a bill

would be produced (i.e., cost-effectiveness based on where the amount billed is at least the cost of processing the bill and collection). That assumes there would be a capability with reports to account for the unbilled amounts as they accumulate, including at a customer/agreement detail level as well as at summary levels.

- D. Goods sold or services furnished shall be authorized and documented in a written agreement between NASA and the ordering entity. The activity receiving the goods or services (ordering entity or customer) reimburses NASA. Amounts that do not represent liquidations of advances furnished by reimbursable customers are recorded as accounts receivable.
- E. Interest Receivable. Accrued interest charges on accounts and loans receivable. This also includes interest accrued on investment securities. Interest shall be recognized on outstanding delinquent accounts receivable against persons and entities in accordance with provisions in 31 U.S.C. § 3717, Interest and Penalty Claims. Interest is accrued on outstanding debt when an amount due is not received by the established due date subject to the following,
1. Interest shall accrue from the date of delinquency, or as otherwise provided by law.
  2. Unless otherwise established in a contract, repayment agreement, or by statute, the rate of interest charged shall be the rate established annually by Treasury in accordance with 31 U.S.C. § 3717.
  3. The rate of interest, as initially charged, shall remain fixed for the duration of the indebtedness. When a debtor defaults on a repayment agreement and seeks to enter into a new agreement, the agency may require payment of interest at a new rate that reflects the current value of funds to the Treasury at the time the new agreement is executed. Interest shall not be compounded, that is, interest shall not be charged on interest, penalties, or administrative costs. If, however, a debtor defaults on a previous repayment agreement, charges that accrued but were not collected under the defaulted agreement shall be added to the principal under the new repayment agreement.
  4. Interest assessed on a delinquent receivable may not be charged if the amount due on the claim is paid within 30 days after the date from which interest accrues. The head of an executive, judicial, or legislative agency may extend the 30-day period.
  5. Since interest on delinquent debt can not be charged (per 31 U.S.C. § 3717) if the amount due on the claim is paid within 30 days after the date from which interest accrues and the interest that accrued on the delinquent debt within the previous 30 days was not included in the collection, that interest amount can be waived. That amount should be reversed, not written off. That only applies to the portion of interest



receivable that was assessed on the delinquent receivable within the previous 30 days.

6. Interest receivable must be recorded by NSSC for the amount of interest income earned but not received for an accounting period. These charges shall continue to accrue until the debt is paid in full or otherwise resolved through compromise, termination, or waiver of the charges.
- F. Receivables shall be recorded, maintained, and reported in accordance with the United States Government Standard General Ledger (USSGL). The first four digits of the accounts receivable general ledger account shall conform to the USSGL chart of accounts.
- G. Adequate internal controls must be in place to ensure accurate and timely recording and maintenance of accounts receivables. Appropriate separation of duties requires that several individuals will be involved in the recording and reporting of public and intragovernmental accounts receivable activity. The Center CFO and the NSSC are responsible for coordinating their actions to ensure that accounts receivable are recorded, aged, written-off, or closed-out as required in this chapter. Major categories of receivables (reimbursable agreements, contract refunds, travel refunds, payroll, etc.) shall be maintained to facilitate clear and full disclosure of accounts receivable including the name of the debtor, and the amount, age, and the type of debt. Subsidiary records shall be reconciled to the control accounts on a monthly basis. Proper separation of duties shall be maintained.
- H. Gains or losses resulting from foreign currency receivables shall be recorded in the "Other Gains or Losses" account for the period when settlement occurs. This requirement does not supersede the accounting requirement concerning gains or losses in foreign currency transactions as set forth in 31 U.S.C. § 3342.
- I. Specific requirements for the billing and collection of accounts receivable and debts are in FMR Volume 15, Chapter 4, "Billing and Collection."

### 3.5.2 Intragovernmental Receivables.

- A. Receivables due from other Federal entities are intragovernmental receivables, and should be reported separately from receivables due from public entities. Billings arising from transactions within NASA and with other federal departments and agencies shall be recorded as accounts receivable in the accounting month during which the associated revenue is earned. Intragovernmental receivables due from other NASA Centers should be excluded from any external reporting of receivables (e.g., Treasury Report on Receivables).
- B. Bills resulting from transactions with other Federal departments or agencies shall be collected, where possible, through automated, or

regularly established, self-collection methods such as the Treasury's Intragovernmental Payment and Collecting (IPAC) system. Remittance by check from federal agencies shall be used as a last resort, and is not allowed between NASA Centers.

- C. NASA Centers must comply with the Intragovernmental Business Rule contained in FMR Volume 6, Chapter 12, "Intragovernmental Transactions." Those rules address the billing data and timeframes as well as reconciliations between the entity ordering goods and services and the entity providing the goods and services. In addition the rules contain specific guidance and timeframes for dispute resolution.

### 3.5.3 Public Receivables.

- A. Receivables due from the public are claims of NASA, or an entity within the federal government, against nonfederal entities. This includes debts from public entities, foreign governments and companies, employees, and organizations outside the U.S. Government. Public receivables are created when revenue is earned and can not be applied against an outstanding advance, or when the need to collect a refund is identified.
- B. The due date for a receivable is normally 30 days from the date of invoice or notice of payment due unless a specific due date is established by statute, contract provision, or notice of indebtedness. The initial demand for payment shall include a complete explanation of the debtor's rights, responsibilities, and additional charges that may be levied.

### C. Refunds Receivable.

- 1. Refunds receivable are funds due to NASA. Generally, that covers situations in which the receipt is directly related to, and is a direct reduction of, a previously recorded expenditure. Thus, the recovery of an erroneous payment or overpayment which was erroneous at the time it was made qualifies as a refund to the appropriation originally charged. The rationale for crediting refunds to an appropriation account is to enable the account to be made whole for the overpayment that gave rise to the refund.
- 2. There is not a separate account for refunds receivable in the USSGL. Refunds receivable are treated as accounts receivable. Examples of refunds receivable include, but are not limited to the following:
  - a. Salary overpayments.
  - b. Amounts representing employee benefits paid by NASA while an employee is on leave without pay (LWOP) status.
  - c. Overpayments to commercial concerns due to erroneous billings, incorrectly computed invoices, or contract default.

- d. Overpayments made to employees as a result of erroneous or invalid amounts on a travel voucher.
    - e. Amounts due for items rejected or returned.
    - f. Recovery of amounts due on payments for contractual services when contracts are canceled and adjustments made for the unused portion.
    - g. Recovery of advance payments when it is determined that the remaining balance of an advance payment must be returned to NASA.
  - 3. Payroll offices, legal offices, procurement offices, or any entity that determines that a refund is due to NASA shall notify the NSSC that an accounts receivable is to be recorded in the accounting system. Such notification shall be made in the same accounting cycle that the debt is recognized.
  - 4. The payroll system must provide information to NSSC to ensure prompt and accurate collection through the establishment of accounts receivable, appropriate reports and follow-up actions for:
    - a. Health and life insurance premiums when gross pay is insufficient to fund the deduction (such as when an employee is on leave without pay and must pay NASA for health insurance premiums in order to keep the insurance in force).
    - b. Collectible court juror or witness reimbursements to employees while not in a leave status.
    - c. Leave taken in excess of leave earned at separation.
- 3.5.4 Aging of Accounts Receivable. The NSSC shall regularly run detailed aging schedules for all outstanding receivables and make this data available to the Center CFO offices. Aging allows for the management of collection actions. On a monthly basis, the NSSC shall prepare the Treasury Report on Receivables (TROR) by Center and analyze the open accounts receivable. The analysis should be performed prior to the normal billing process. The original debt and any additional charges, including related administrative fees, interest, and penalties must all be aged as of the date the original debt became delinquent. The NSSC shall provide accounts receivable aging information to the Agency OCFO monthly and quarterly as part of their Treasury Report on Receivables (TROR) and Periodic Monitoring and Controls submissions.
- 3.5.5 Allowance for Loss on Accounts Receivable. The NSSC shall periodically (but not less frequently than annually) calculate and adjust the allowance accounts for each Center by fund (i.e., Allowance for Loss on Accounts Receivable, Allowance for Loss on Interest Receivable, and Allowance for

Loss on Penalties, Fines, and Administrative Fees Receivable). Allowance accounts represent the estimated amount of uncollectible receivables so that receivables can be reported at their net realizable value. The realizable value of the receivables is based on the receivable balances less balances of corresponding allowance accounts.

- A. The balances of allowance accounts should be based on the history of write offs experienced over the past two years. NSSC must develop allowance percentages for each of the aging periods identified in Part 1, Section C, of the Treasury Report on Receivables (TROR). Each of the percentages developed is to be applied to the total value of non-Federal receivables in that aging group.
- B. Balances of allowance accounts shall be computed by fund for each Center.

3.5.6 Erroneous, Invalid, or Unsubstantiated Accounts Receivable.

- A. NASA Centers and the NSSC shall review receivables for completeness, accuracy, and supportability on a monthly basis. Any account receivable found to be erroneous or unsupported shall no longer be classified as collectible. If it is determined that the debt was never owed and should not have been classified as an account receivable, the entries that established the receivable shall be reversed.
- B. If the documentation necessary to support a claim is no longer available the accounts receivable should be reversed. Justification for reversing the account receivable shall be documented and maintained for future audit purposes.
- C. If it is determined that NASA does not have a legitimate legal basis for the claim, either as a result of a regular review of receivables or a dispute of the claim, the entries that established the accounts receivable shall be reversed.
- D. If a debt is to be reversed, the entry shall be recorded in the period in which the adjustment occurs.

3.5.7 Canceled Appropriations. Appropriation cancellation does not in itself relieve NASA of the responsibility to pursue collection or recovery. Outstanding receivables shall be retained in the accounting records even though an appropriation is cancelled. Collections received after an appropriation closes shall be deposited in the Department of the Treasury's Account 3200, "Collections of Receivables from Canceled Accounts."

3.5.8 Debt Collection. In general, the following sequence of events is to be followed for the collection of public debts owed to NASA. NSSC will send a bill to the debtor containing a specific due date. If the debtor does not respond NSSC must issue at least one additional demand letter. If the debtor does not respond the debt is to be transferred to Treasury for collection under

the Treasury cross servicing program. If the debt is not paid within 24 months of the time it became delinquent the Center should write-off the debt in its accounting records. Treasury will continue to collect the debt for up to 6 years. If the debt is collected after it is written off the amount collected must be deposited to Miscellaneous Receipts. If Treasury returns the debt as uncollectible, the Center must close out the debt and in most cases issue an IRS 1099-C in the amount of the debt that was not collected. The specific policies for collection and close-out of debt are described in FMR Volume 15, Chapter 4, "Billing and Collection."

#### 3.5.9 Write-off of Public Accounts Receivable.

- A. The write-off and close-out of public debt are two separate actions that are governed by different rules. Write-off is the process of removing accounts receivable from the accounting records when there is less than 50 percent likelihood that the debt will be collected or if the debt remains uncollected when it reaches 2 years old. Close-out, on the other hand, is the process of terminating collection actions.
- B. Requirements for the write-off of public accounts receivable are established in Office of Management and Budget (OMB) Circular No. A-129, Policies for Federal Credit Programs and Non-Tax Receivables.
- C. Once a debt is written-off, the debt should be reclassified as currently not collectible (CNC) or the debt should be closed out. If collection efforts are to continue, the debt should be reclassified in CNC status. If a determination has been made to terminate collection efforts, the debt should be closed out.
- D. Generally, write-off is mandatory for public delinquent debt that has not been collected within 2 years unless documented and justified to OMB in consultation with Treasury. In certain situations, debts could remain as assets and not written off. In accordance with OMB Circular No. A-129, if it is determined there are cases where material collections can be documented to occur after 2 years, debts cannot be written off until the estimated collections become immaterial. If a debt not collected within 2 years is not to be written off, that should be reviewed by the Director of Financial Management at NASA Headquarters and documented and justified to OMB in consultation with Treasury. See OMB Circular No. A-129, Section V.5. Unless a determination is expressly made that the debt should not be written off, the debt not collected within 2 years should be written off.
- E. Eligibility for Write-off for Public debt that has not been collected in a period of less than 2 years. Debts will be considered for write off before 2 years when the following conditions exist:
  - 1. Reasonable collection efforts have been exhausted (interpreted to mean "demand letters" have been sent in 30-day increments with no success).

2. The item is delinquent by 180 days or more.
  3. There is more than a 50% chance that the receivable will result in a loss.
  4. The cost of further collection action will probably exceed the amount that could be collected.
- F. Basis for determining there is more than a 50% chance that the receivable will result in a loss. The Treasury Federal Claims Collection Standards 31 CFR 903.3 Termination of collection activity covers some basic conditions which include, but are not limited to:
1. The agency is unable to collect any substantial amount through its own efforts or through the efforts of others.
  2. The agency is unable to locate the debtor.
  3. Costs of collection are anticipated to exceed the amount recoverable.
  4. The debt against the debtor has been discharged in bankruptcy. Agencies may continue collection activity, however, subject to the provisions of the Bankruptcy Code, for any payments provided under a plan of reorganization. The Center at which the debt occurred should seek legal advice from legal counsel if it is believed they have claims or offsets that may survive the discharge of a debtor.
- G. Debts in Appeal or Litigation. If the debt is being appealed by the debtor, is in litigation status, or for any other reason the collection activities have been suspended and the debt has not been collected within 2 years, write off of the debt is still mandatory except for circumstances described above in which the Director of Financial Management at NASA Headquarters (in consultation with OMB and Treasury) determines that a debt is not to be written off. Per guidance from Treasury, collection activity could be suspended with the intention of being resumed at a future date, but that is independent from write off of the debt. If it is determined that collections efforts are to be terminated (as opposed to suspended), write off of the debt is mandatory.
- H. Write-off Approval Authority.
1. Debts that have not been Collected within a Period of Less than 2 Years. Generally, approvals for write off are consistent with those required for close-out/compromise of debt. Except where noted below, it is assumed that when debts that are written off before 2 years, termination of collection efforts will also occur. If a debt is to be written off, but collection efforts are not terminated, that would need to be expressly approved by the Director of Financial Management in HQ/OCFO.

- a. Center DCFOs are authorized to periodically review and approve debts where the principal of each debt is \$100 or less (including interest, penalties, and administrative charges) and that have been outstanding for less than 2 years for write off and termination of collection efforts. That includes debts that have been substantially collected, but where there are small residual balances remaining and which are not cost-effective to try to collect.
  - b. Center CFOs are authorized to write off and terminate collection efforts for individual accounts receivable with principal amounts not exceeding \$20,000 that have been outstanding for less than 2 years.
  - c. Center CFOs, with concurrence from the Center Director or designee, must submit write off requests for individual delinquent debts with principal amounts greater than \$20,000 to the NASA Office of the Chief Financial Officer, Director for Financial Management for approval.
  - d. Debts greater than \$100,000 (exclusive of interest, penalties, and administrative charges) can be written off after approval by the Director for Financial Management. However, termination of collection efforts must continue unless explicitly determined by the Department of Justice (DOJ). Unless collection efforts are terminated, such debts must be reclassified as CNC status.
2. Debts that have not been Collected after 2 Years.
- a. Generally, because write-off (while continuing collection efforts) is mandatory for public delinquent debt that has not been collected within 2 years, explicit Center CFO approval or approval from the Director for Financial Management is not needed for write off when the debt has not been collected within 2 years. However, the Center CFO office, in consultation with NSSC, should review debts prior to 2 years in order to determine if additional collection efforts are warranted. Unless approvals are obtained in accordance with the section describing close-out of debts, any debts not collected within 2 years that are written off should remain in CNC status.
  - b. Delinquent debts with principal amounts greater than \$20,000 will need to be referred to the Director for Financial Management before they reach 2 years so a determination can be made whether the debts meet criteria to not be written off at 2 years. If such a determination is made, the Director for Financial Management shall justify not writing off the debt to OMB in consultation with Treasury. If such a determination is not made explicitly by the Director for Financial Management and the debt has not been collected within 2 years, write off is mandatory.

- c. Write off of debts that have not been collected within 2 years does not imply that collection efforts will be discontinued. Debts that are written off if uncollected within 2 years will be reclassified to CNC status unless specific determinations are made to terminate collection efforts.
  3. Write off of accounts receivable where the outstanding principal amount is greater than \$100,000. Write off of accounts receivable where the outstanding principal amount is greater than \$100,000 (exclusive of interest, penalties, and administrative charges) with intention of termination of collection activities requires consultation with the Department of Justice (DOJ). Only DOJ has authority to compromise, suspend, or terminate collections actions for accounts receivable at this level. Requests for write off of accounts greater than \$100,000 should still be submitted to Director of Financial Management in the OCFO at NASA Headquarters for approval before the matter is forwarded to DOJ. The debt could be written off without referral to DOJ, but the debt must remain in CNC status indicating that collection efforts are continuing.
  4. Write off of Residual Balances Remaining on Debts. Debts that are less than 2 years old, that have not been collected in full and where the principal balance of each debt is \$100 or less can be grouped for review by the Center CFO and determination of whether to write off those balances and terminate collection efforts. Such a review shall be done periodically, but not less frequently than quarterly. In order to avoid continued collection efforts, including additional assessments of interest, the review and write off of that debt should be accomplished monthly prior to month-end close. Although debts whose principal is \$100 or less are not individually significant, under no circumstances should internal controls be compromised by the write-off or reclassification of debt. Very small percentages of debt can frequently result in amounts that, while immaterial to the overall debt and write-off balances, are large enough to pose a risk of fraud and abuse. Adequate internal controls must be maintained.
- I. Accounting for Write-offs.
1. Write-Off of Uncollectible Receivables. All amounts being written off must be recorded as debits to the appropriate allowance for loss on receivable account (1319, 1349, or 1369), and as credits to the appropriate receivable account (1310, 1320, 1340, or 1360). Amounts being written off may not be charged directly to an expense or asset account.
  2. If at any time the amount of receivables to be written off exceeds the balance in the allowance account, the allowance account must be increased before the receivables are written off. As stated above all write-offs must be posted to the proper allowance account and not to expense.



- 3.5.10 Termination of Collection, Use of Currently Not Collectible (CNC), and Close-Out. "Termination" and "suspension of collection" are legal procedures, which are separate and distinct from the accounting procedure of "write-off."
- A. General. Once the debt is written-off, the agency must either classify the debt as currently not collectible (CNC) or close-out the debt. Generally, NASA may compromise a claim of the Government of not more than \$100,000 (exclusive of interest, penalties, and administrative costs). Compromise or close out of a debt whose principal is greater than \$100,000 can only be done through the Department of Justice (DOJ).
- B. Termination of Collection Activity. Before terminating collection activity, the agency should have pursued all appropriate means of collection and determined, based upon the results of the collection activity, that the debt is uncollectible.
1. Termination of collection activity ceases active collection of the debt. Collection activity may be terminated when:
    - a. The agency is unable to collect any substantial amount through its own efforts or through the efforts of others.
    - b. The agency is unable to locate the debtor.
    - c. Costs of collection are anticipated to exceed the amount recoverable.
    - d. The debt is legally without merit or enforcement of the debt is barred by any applicable statute of limitations.
    - e. The debt cannot be substantiated.
    - f. The debt against the debtor has been discharged in bankruptcy.
  2. Generally, agencies shall terminate collection activity on a debt that has been discharged in bankruptcy, regardless of the amount. Agencies may continue collection activity, however, subject to the provisions of the Bankruptcy Code, for any payments provided under a plan of reorganization. Offset and recoupment rights may survive the discharge of the debtor in bankruptcy and, under some circumstances, claims also may survive the discharge. For example, the claims of an agency that it is a known creditor of a debtor may survive a discharge if the agency did not receive formal notice of the proceedings. Agencies should seek legal advice from their agency counsel if they believe they have claims or offsets that may survive the discharge of a debtor.
- C. Debts in CNC Status. Debts that have been written off but where collections efforts have not been terminated should remain in CNC status.

During the period debts are classified as CNC, agencies should maintain the debt for administrative offset and other collection tools until:

1. The debt is paid; or
  2. The debt is closed out; or
  3. All collection actions are legally precluded; or
  4. The debt is sold, whichever occurs first.
- D. Close-Out of Debt. Before discharging a delinquent debt (also referred to as a close out of the debt), agencies shall take all appropriate steps to collect the debt including, as applicable, administrative offset, tax refund offset, Federal salary offset, referral to Treasury, Treasury-designated debt collection centers or private collection contractors, credit bureau reporting, wage garnishment, litigation, and foreclosure. When an agency discharges a debt in full or in part, further collection action is prohibited. A compromise of debt under this section is final and conclusive unless obtained by fraud, misrepresentation, presenting a false claim, or mutual mistake of fact.
- E. Reporting of Closed Out Debt to the IRS. Upon discharge of indebtedness, agencies must annually report the discharge of the debt to the IRS and to the debtor. Relevant IRS guidance (particularly IRS Publication 1220) should be consulted each year for reporting requirements.
1. An IRS Form 1099-C Cancellation of Debt is required in cases where the amount of debt discharged associated with each debtor is \$600 or more. The amount covered by an IRS 1099-C (including for determining whether the IRS dollar threshold is exceeded for producing an IRS Form 1099-C) could represent debt associated with multiple bills that have been closed out and could represent uncollectible interest or penalties as well as uncollectible principal. All filing requirements apply to each reporting entity as defined by its separate Taxpayer Identification Number (TIN), which may be a Social Security Number (SSN), Employer Identification Number (EIN), or Individual Taxpayer Identification Number (ITIN). For example, if a corporation with several branches or locations uses the same EIN, NASA must aggregate the total volume of returns to be filed for that EIN and apply the filing requirements to each type of return accordingly.
  2. The generation of the IRS Form 1099-C should be for the year in which the indebtedness was discharged (i.e., closed out) and not when the receivable was written off (which could have been earlier).
  3. If the number of IRS Forms 1099-C for year being reported exceed the threshold for electronic reporting as established by the IRS,

electronic filing is required (described in IRS Publication 1220). The regulations under section 6011(e)(2)(A) of the Internal Revenue Code provide that 250 or more information returns must file such returns electronically/magnetically. The 250 or more requirement applies separately for each type of return and separately to each type of corrected return.

4. Amounts included in IRS Forms 1099-C should not include debts that are reversed because of corrections or if it was determined that debts did not have legal merit.

F. Approval Authority for Close Out.

1. Close Out of Debts not Greater than \$100. Debts whose outstanding balance (which include interest, penalties, or administrative charges) is \$100 or less and that have been substantially previously collected can be grouped for review and determination of whether to close-out the debt. Approval can be done by the Center CFO. The review should include an analysis for each debt of the original debt amount, how much has been collected to date, and the remaining balance.
  2. Close-Out of Debts Not Greater than \$20,000. Debts whose outstanding principal balance is \$20,000 or less (exclusive of include interest, penalties, or administrative charges) should be individually reviewed in order to determine whether additional collection efforts are warranted. Close-out of the debts must be individually approved by the Center CFO.
  3. Close Out of Debts Greater than \$20,000 and Equal to or Less than \$100,000. Debts whose outstanding principal balance is greater than \$20,000 should be individually reviewed in order to determine whether additional collection efforts are warranted. Requests for close-out of the debts must be individually approved by the Center CFO with concurrence of the Center Director or designee. Those requests shall be forwarded to the Director of Financial Management in HQ/OCFO for review and approval.
  4. Close Out of Debts over \$100,000. Unless otherwise provided by law, when the principal balance of a debt, exclusive of interest, penalties, and administrative costs, exceeds \$100,000 or any higher amount authorized by the Attorney General, the authority to accept the compromise rests with the Department of Justice (DOJ). Only DOJ has authority to compromise, suspend, or terminate collections actions for accounts receivable at this level. Requests for termination of collection efforts of accounts greater than \$100,000 should still be submitted to Director of Financial Management at NASA Headquarters for approval before the matter is forwarded to DOJ.
- G. Waiver of Claims for Erroneous Payment of Pay and Allowances, Travel, Transportation, and Relocation Expenses and Allowances. It is NASA

policy to aggressively pursue the collection of all delinquent debts. The authority granted in this section may only be used when the situation meets the criteria established in 5 U.S.C. § 5584(a) that reads, "The collection of which would be against equity and good conscience and not in the best interest of the United States." NASA NPD 9645.2D delegates authority for the waiver of claims resulting from erroneous payments of pay and allowances, travel, transportation, and relocation expenses and allowances made to or on behalf of NASA employees. The NPD identifies the officials authorized to grant waivers, the amounts they may approve as well as the offices that should review and coordinate on each proposed waiver.

1. The Director of Headquarters Operations (for claims originating at Headquarters), the NASA Inspector General (for claims of OIG employees), and each Center Director (for claims originating at the Center or the respective Component Facility), are delegated the authority to grant a waiver, in whole or part, of a claim in an amount aggregating not more than \$5,000, when the waiver is permitted under 5 U.S.C. § 5584.
  2. The Associate Deputy Administrator for Institutions and Asset Management is delegated the authority to perform the following:
    - a. Grant a waiver, in whole or part, of a claim in any amount when waiver is permitted under 5 U.S.C. § 5584.
    - b. Reconsider denials of waiver by the Director of Headquarters Operations or a Center Director.
- H. Authority to Compromise, Suspend, or Terminate Collection of Public Debt Other than Recoupment of Employment Related Over Payments. Authority to compromise, suspend, or terminate collection of public receivables within NASA's jurisdiction with a principal balance less than \$100,000 is identified in 31 U.S.C. § 3711, OMB Circular No. A-129 and 14 CFR 1261.4. The authority to terminate collection of debts having principle balance greater than \$100,000 rests with the U.S. Attorney General. The authority to compromise, suspend, or terminate collection of debts not greater than \$100,000 are summarized as follows:
1. Following consultation with NASA legal counsel for the particular installation, the compromise, termination, or suspension of debts up to \$100,000 exclusive of interest and related charges may be approved as follows:
    - a. For field installations, The Director of the Installation or a designee who reports directly to the Installation Director.
    - b. For Headquarters, The Associate Administrator for Management or a designee who reports directly to the Associate Administrator for Management.

- c. Copies of designations, if any, issued pursuant to this authority must be sent to the Director, Financial Management Division, NASA Headquarters.
- 2. The authority identified in the preceding paragraph is qualified as follows:
  - a. With respect to claims against contractors or grantees arising in connection with contracts or grants the approving official must consult with the contracting officer and the financial management officer of the installation concerned prior to issuing a determination.
  - b. With respect to claims against commercial carriers for loss of or damage to NASA freight shipment the approving official must consult with the cognizant transportation officer or the official who determined the amount of the claim, as appropriate, and the financial management officer of the installation concerned prior to issuing a determination.
  - c. With respect to claims against employees of NASA, incident to their employment other than the repayment of overpayments of erroneous payments of pay and allowances, travel, transportation, and related expenses, the approving official must consult with the personnel officer and the financial management officer of the installation concerned prior to issuing a determination.

#### 3.5.11 Suspension of Collection Activity.

- A. Collection activity may be suspended on a debt when:
  - 1. The Agency cannot locate the debtor;
  - 2. The debtor's financial condition is expected to improve; or
  - 3. The debtor has requested a waiver or review of the debt.
- B. Collection activity shall be suspended during the time required for consideration of the debtor's request for waiver or administrative review of the debt if the statute under which the request is sought prohibits the agency from collecting the debt during that time. When it is learned that a bankruptcy petition has been filed with respect to a debtor, in most cases the collection activity on a debt must be suspended. In accordance with instructions for the Treasury Report on Receivables (TROR), debts where collection efforts have been suspended because of circumstances that include, but are not limited to the following are not eligible to be forwarded to Treasury for collection:
  - 1. Bankruptcy.

2. Forbearance.
3. Formal appeals.
4. Foreclosure.

C. Write-off and Close-Out Documentation. NSSC shall maintain appropriate documentation to substantiate the write-off and close-out actions including evidence of the applicable reviews and approvals. This information must be reported on the Treasury Report on Receivables (TROR) for the entire fiscal year during which the debt was written off. Documentation should also be maintained in the event the debtor pays NASA in the future.

1. When a debt is written-off, and has not been closed-out (collection actions are still in process) it must be classified as “currently not collectible” (CNC).
2. Debts in CNC status are reported on the Treasury Report on Receivables (TROR) and are eligible for both offset and cross-servicing.
3. CNC debt shall be continuously reviewed and, as required, reclassified and closed-out.

D. Delinquent accounts receivable shall be managed in accordance with the requirements in FMR Volume 15, Chapter 4, “Billing and Collection.”

### 3.6 REPORTING REQUIREMENTS.

- 3.6.1 Report on Receivables Due From the Public. NSSC shall submit a completed Treasury Report on Receivables (TROR) to the NASA Office of the Chief Financial Officer at the end of each month. Requirements for the preparation of this report can be found in FMR Volume 8, *External Reporting*, Chapter 5.
- 3.6.2 Reporting Receivables in the Audited Financial Statements. Accounts receivable are reported on the annual audited financial statements of the Agency. Public and intragovernmental receivables are reported separately. Receivable amounts are identified on the Balance Sheet and information concerning the composition and aging of receivables is disclosed in the Notes to the Financial Statements.
- 3.6.3 Reconciliation of Financial Statement Balances with FACTS I. Public accounts receivable balances reported on the annual audited financial statements shall be reconciled with the Federal Agencies’ Centralized Trial Balance System (FACTS I) accounts receivable from the public balances (attribute nonfederal).

- 3.6.4 Reconciliation of Public Receivables. Accounts receivable balances due from the public reported on the annual audited financial statements shall be reconciled with receivables reported on the Treasury Report on Receivables (TROR).
- 3.6.5 Intragovernmental Eliminations. The consolidated annual audited financial statements eliminate intragovernmental accounts receivable balances. Accounts receivable balances shall be eliminated against the trading partner's accounts payable balances. NASA Centers must include the trading partner identity on all reimbursable agreements with other Federal Agencies as well as any other receivable or payable involving another Federal Agency. With identification of partner codes on each receivable transaction, elimination of intragovernmental accounts receivable against applicable accounts payable can be accomplished accurately and efficiently.
- 3.7 QUALITY ASSURANCE.
- 3.7.1 Periodic Monitoring Controls Performed by Centers. The NASA Centers, in collaboration with the NSSC, are required to manage their receivables and take the necessary actions to minimize the number and dollar value of accounts receivable. The Continuous Monitoring Program contains periodic monitoring and reporting requirements for Accounts Receivable.
- 3.7.2 Unsupportable Receivables. Receivables shall be reviewed for supportability and validity. Such reviews shall be conducted by Centers in collaboration with NSSC as required in this FMR and in Volume 6, Chapter 7, "Accounts Payable." If a receivable is found to be unsupportable, that receivable shall be removed from the accounting records within 10 workdays of its identification as erroneous, invalid, or unsupportable.
- 3.7.3 Receivables Referred to Department of Justice. Exempt from annual review are public receivables under review by the Department of the Justice, and debt in the process of being collected as required by the Federal Acquisition Regulation, Part 32.6, "Contract Debt." However, such exempt debt shall be aggressively managed and monitored for status of collection by the responsible accounting office.